



Forecasting China's Military Spending Through 2025

U.S. policymakers are concerned about China's potential to mount a serious military challenge to U.S. interests in Asia sometime in the next two decades. These concerns have risen as the Chinese government has rapidly increased its defense budget in recent years after a prolonged period of low levels of military spending. However, several trends must be sustained if these concerns are to become a reality by 2025. First, China's economy will have to continue to grow, making resources available for military spending. Second, the Chinese government must successfully channel resources to the military. Third, improvements in China's defense industry must continue if it is to produce the sophisticated weaponry needed to challenge U.S. forces. RAND Project AIR FORCE (PAF) assessed these trends and provided projections of China's potential military expenditures through 2025.

Projections Show That China Could Increase Military Spending Substantially

PAF concluded the following:

- The growth rate of China's large economy is unlikely to match that of the past 30 years. However, researchers assume that the economy will grow at an average annual rate of 5 percent through 2025. It will more than triple in size to be about half the projected size of the U.S. economy.
- As China's population becomes older and more urbanized, the government will face strong pressure to spend more on needed social programs such as pensions and health care and on public infrastructure. These demands will limit the resources China has available for military spending.
- China's defense industry is still technologically backward but is improving rapidly. Reforms such as open bidding for materials have been introduced to encourage innovation and efficiency. These trends will continue if the Chinese government continues to push reforms and increase defense spending.

These factors suggest that China will have the economic and technological wherewithal to increase its military capabilities substantially in the next two decades. PAF's projection of the most likely level of future military spending through 2025 puts China's military spending at the equivalent of \$185 billion (in 2001 dollars) in 2025, roughly three-fifths of U.S. defense spending in 2003. Between 2003 and 2025, in dollar terms Chinese expenditures on procurement and research and development are projected to more than double.

How Will We Know If China Is Straying from the Projected Course?

Forecasts are never completely accurate because of the many unknowns involved. PAF's projections are based on a variety of economic and other indicators that analysts can track to determine whether China is moving in the expected direction or whether future military expenditures and capabilities are likely to diverge substantially up or down. For example, if China's gross domestic product grows 2.5 percentage points more rapidly or more slowly than PAF projects for three consecutive years, overall economic growth will differ from that forecasted. Likewise, if the Chinese government fails to close poorly performing manufacturing plants, analysts may conclude that defense industry reforms are not proceeding as forecasted. Analysts should take these and other indicators into account when evaluating China's future military threat. ■

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